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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The End Of Inventory Liquidation . . .

On the surface, the economy seems to be snapping back rather briskly from the long recession. Preliminary estimates indicate that the "real" GNP may have grown at an annual rate of close to five per cent in the first quarter, compared with the final quarter of 1982—the biggest quarterly increase in two years. The purchasing managers of the nation's 250 largest industrial companies report that during the two months ending in February, activity in their industries rebounded at a much faster pace than was average for the comparable time period following previous postwar recessions. New factory orders rose 2.4 per cent in January—posting their third consecutive monthly gain—while manufacturers' backlogs of orders increased for the second month in a row after 16 months of declines.

But the pace of business is not as fast as the top-line GNP numbers suggest. The reason for this is what appears to be a sharp swing in inventories. After a massive liquidation in the fourth quarter, inventories seem to have leveled out—if not actually increased in the first. The way the GNP numbers are put together, even if final sales, the most important indicator of economic activity, do not rise at all, an end to inventory liquidation still boosts the real GNP—in this case by as much as five per cent, at an annual rate.

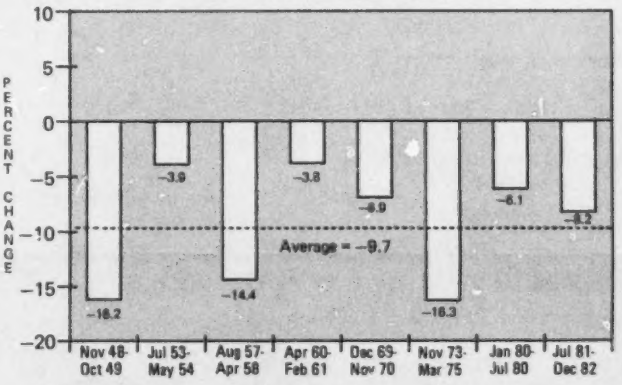
. . . Will Boost The GNP . . .

The drawdown of inventories in the fourth quarter stemmed from sharply improving final demand as consumers reacted quickly to declining interest rates and the slowdown in inflation. Early in the quarter, however, less and less was produced as output of the nation's factories continued its protracted decline. But by yearend, more than two-thirds of the nation's major industries were stepping up production, in sharp contrast to just three months earlier, when production declined in more than 75 per cent of these industries.

It would seem, however, that businessmen as well as consumers remain cautious, especially when committing themselves to large purchases. They still feel the effects of the long recession and seem to be inclined to save their money rather than spend it, at least until they are assured that things will continue to get better. Many businessmen were burned by becoming too exuberant during the short-lived recovery which followed the 1980 recession.

Consumer spending is usually influenced to a large extent by people's near-term outlook on the economy in general and their own income prospects in particular. Consumer confidence has improved lately, as measured by the Conference Board's consumer attitudes survey. But while people seem to be encouraged about overall business conditions in the months ahead, more than 75 per cent of the respondents believe that the employment situation will not improve over the near term.

REAL NONRESIDENTIAL FIXED INVESTMENT IN CYCLICAL PERSPECTIVE



. . . But Businessmen And Consumers . . .

Consumers seem to be loosening their purse strings, but slowly. It seems that people have adopted a "wait-and-see" attitude—waiting for consumer finance rates to come down, and hoping prices will decline, too. So after increasing sharply in the fourth quarter, sales appear to have softened once again. Indeed, retail sales declined 0.4 per cent in February, month over month, following January's downward-revised 0.5 per cent decrease. More

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specifically, after reacting with enthusiasm in the fourth quarter to the interest rate subsidies offered by the Big Three's financial arms, new car buyers pulled in their horns in the first, causing sales to stall at a six million unit pace. Housing activity has jumped sharply, but the drop in mortgage interest rates has slowed and may soon cause construction to level off.

The employment picture remains a reason for much concern. Although the unemployment rate was unchanged in February, a closer look reveals that in some instances the employment situation may have actually worsened a bit. For example, the unemployment rate for adult men rose by 0.3 percentage points to 9.9 per cent, while payroll employment declined by 0.2 per cent month-over-month, following an increase in the previous month. The decline was concentrated in retail and wholesale trade and construction--precisely those industries which posted large gains in January. In February half of the 20 largest industries reduced their payrolls of production workers, while in January only five industries cut their workforce. However, a large part of this deterioration may be attributed to February's unfavorable weather. Blizzards swept the country in mid-month, just at the time when this survey was taken. Those workers who retained their jobs undoubtedly worked fewer hours, for the average workweek in manufacturing--

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/2/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	143.728	– 1.723	+ 8.544
Loans to Depository Inst.	.710	+ .234	– .852
Float	2.387	+ .787	– .750
Total Reserve Bank Credit	155.821	– .632	+ 6.567
Treasury Deposits with Federal Reserve Banks	2.896	– .325	– 1.032
Currency Outside Banks	135.880	– .698	+10.907
Member Bank Reserves:			
Required	39.345	– .045	– 1.197
Excess (Deficiency)	.567	+ .232	+ .054
Total Reserves Held	39.912	+ .187	– 1.143
Net Free Reserves	.195	– .044	+ .809
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.134	+ 1.693	+19.524
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	492.7	+ 14.7‡	+ 9.6‡
M2 (February '83)	2,047.5	+ 21.1	+ 12.8
M3 (February '83)	2,427.3	+ 9.7	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/11/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.03%	8.21%	8.44%
* Federal Agencies	5.59	7.71	8.33
* Project Notes—Taxfree (46% Taxable Equivalent)	7.41	7.50	8.70
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.65	8.85	9.35

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.38%	Apr.	8.40%
15- 29 days	8.38	May	8.40
30- 59 days	8.50	Jun.	8.40
60- 89 days	8.50	Jul.	8.45
90-179 days	8.38	Aug.	8.40
180-239 days	8.38	Sep.	8.35
240-270 days	8.38		

‡Industrial Paper—Prime			
30- 89 days	8.38%	†Federal Funds Effective Rate	8.35%
90-120 days	8.38		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.9	0.7	– 5.3
Change in Consumer Prices (new series)*	Jan '83	2.4%	– 3.6%	3.6%
Change in Producer Prices*	Jan '83	– 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Feb '83	99,063	99,103	99,695
Unemployment as % of Civilian Labor Force†	Feb '83	10.4%	10.4%	8.8%
Personal Income*	Jan '83	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100)†	Jan '83	146.3	141.2	135.1
Industrial Production Index (1967=100) †	Jan '83	136.2	135.0	140.7
Net Change in Consumer Installment Credit†	Jan '83n	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Jan '83	–$ 2.96	–$ 3.20	–$ 4.36
Plant and Equipment Expenditures*	2nd Q'83n	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Jan '83	1,716	1,263	877
New Construction Expenditures*	Jan '83	$ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Jan '83n	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83n	$ 340.5	$ 334.3	$ 334.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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a harbinger of future employment prospects—was cut by almost an hour.

. . . Remain Slow To Spend

Businessmen have also been cautious about spending--especially on plant and equipment. Profits have been too weak to finance large purchases internally, while the cost of external funds remains high. Almost one-third of operating capacity is sitting idle because factory output is about 11½ per cent below its 1981 peak. Following the three major postwar recessions, when investment fell by an average of nearly 16 per cent, capacity utilization first rebounded to above 80 per cent before a revival in investment got underway.

While the current capital investment decline so far has been less severe than the postwar average (see chart on page 1) it may be some time before outlays pick up. According to the Commerce Department's latest survey of business capital spending plans, additional cutbacks in outlays for new plant and equipment are planned for at least two more quarters. This ties in with a survey taken by the Conference Board which shows that the nation's 1,000 largest manufacturers canceled or reduced previously approved projects to the tune of $2 billion in the fourth quarter of 1982. This was topped only by the record $3.1 billion in cancellations in the previous quarter.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/23/83)	113,302	– 1,405	–21,865
New York City (2/23/83)	30,813	– 430	– 2,511
Commercial Paper (2/23/83)	168,266	+ 142	– 437*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/23/83)	216,219	– 837	+16,370
New York City (2/23/83)	59,796	– 913	+ 3,813

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/23/83)	499,420	– 2,780	+23,387
New York City (2/23/83)	115,221	– 2,663	+ 4,843

Financial Markets

	Friday 3/11/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.51%	+ 0.24	– 4.76
180-Day Bills†	8.71	+ 0.26	– 5.20
Longest Bills†	8.94	+ 0.30	– 5.11
Recent Issues:			
9⅝s 2/28/85	9.63	+ 0.33	
10s 12/31/86	9.97	+ 0.27	
10⅞s 2/15/93	10.54	+ 0.24	
10⅜s 11/15/12	10.72	+ 0.24	
Municipals:			
Bond Buyer–20 Bond Index* (3/10/83)	9.22%	+ .18	– 3.49
Blue List Total ($ Million)	$1,251	+ $ 88	+ $ 164
30-Day Visible Supply ($ Million)	$4,132	+ $694	+ $2,086
Total	$5,383	+ $782	+ $2,250
Corporates:			
Moody's Aa Composite (3/10/83)	12.39%	+ .14	– 2.83
30-Day Visible Supply ($ Million) ‡	$ 850	– $ 33	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,117.74	– 23.22	+ 320.37
Transportation	503.34	– 7.78	+ 183.34
Utilities	126.98	– 2.31	+ 20.97
65 Stocks	443.36	– 8.34	+ 130.85
Standard and Poor's 500 Stocks	151.24	– 2.43	+ 42.63
N.Y.S.E. Composite Index	87.29	– 1.34	+ 24.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,122	–19,044	+ 20,986

* 46% Taxable equivalent 17.07%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/11/83	Week Ago
Overnight	8.50%	8.63%
1 month	9.06	8.69
3 month	9.19	8.75
6 month	9.38	8.88
1 year	9.50	9.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.55%
Long Term (7 to 15 yrs.)	11.80	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/11/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02125	47.05
Canada	.8167	1.2245
Denmark	.1153	8.6700
France	.1443	6.9300
Germany	.4184	2.3900
Italy	.0006983	1432.00
Japan	.004249	235.33
Mexico	.006154	162.50
Netherlands	.3779	2.6465
Switzerland	.4871	2.0530
U.K.	1.5030	.6653

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